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Consumption Shows Uneven Pattern

While the aggregate indicators of the Japanese economy continue to move up, some sectors of the economy are not doing nearly as well. The just-released annual family income and expenditure survey shows consumption spending per household in 1987 rose only 1.9 percent in inflation-adjusted terms, with some groups up even less. The average household spent Y280,944 a month or $2,248 at Y125=$1.00. Expenditures by white-collar workers increased by just 1 percent in real terms to an average Y295,915 ($2,367) a month, a particularly small increase considering a gain in disposable income of 2.3 percent and an increase in financial assets of 9.6 percent.

The Bilateral Trade Account: Still Waiting For Improvement

The U.S.-Japan trade results continue to defy the conventional wisdom. For two years economists and policymakers on both sides of the Pacific have been saying that the realignment of the dollar-yen exchange rate was moving exports and imports in the right directions and that the yawning bilateral trade gap would soon begin to narrow. Private-sector and government analysts, though, were hard-pressed to find signs of a turnaround in the 1986 figures since the deficit came in at $58.6 billion (imports valued c.i.f.), $8.8 billion more than 1985's total. The 1987 numbers were even more perplexing. Not only did the shortfall between imports and exports widen to $59.8 billion despite the 50 percent depreciation of the dollar against the yen over the preceding 36 months, but there was just slim evidence that the quarterly deficit had bottomed out.

Although burned twice before, economists and policymakers here and in Japan are convinced that reality will catch up with the conventional wisdom this year. Their straightforward reasoning starts with the fact that U.S. exports to Japan turned in a much stronger performance in 1987 than the overall rise of 5.1 percent to $28.3 billion indicated. Sales were actually up by 18 percent for the year, capped by a 22 percent gain in the October-December quarter, but this result was obscured because the 1986 export total was inflated by a $3.1 billion transshipment of foreign bullion through the United States to Japan. Moreover, the competitive advantages of the weaker dollar and the healthy growth of Japanese domestic demand in 1987's second half produced a broad-based export expansion, one that extended from nearly all types of capital goods and consumer durables and nondurables to most major industrial and agricultural inputs, the laggards in 1986. With the dollar-yen exchange rate expected to remain under pressure and all signs pointing to continued economic expansion in Japan, analysts are confident that exports will post another big gain in 1988.

Predicting the behavior of imports this year is harder because there are a number of question marks -- how much more of the yen's appreciation Japanese exporters pass through, how fast U.S. demand responds to these and earlier price hikes, and how the American economy performs in general. Taken at face value, though, the 1987 import results suggest that purchases have peaked. The aggregate figure was up just 3.1 percent to $88.1 billion on a c.i.f. basis, a far cry from 1986's 18.1 percent jump. Perhaps more important, computer equipment, specialized industrial machinery and automotive parts were among the few big import groups registering double-digit increases. Missing from the list were cars (up a slight 1.2 percent on a 7.7 percent shipment drop), trucks (down 13.2 percent in value and 20.8 percent in volume) and video cassette recorders. Any additions to this list, which already included steel, will insure a significant decline in the 1988 U.S.-Japan trade deficit.

Susan MacKnight

Notes

Construction Market Investigation - The Trade Policy Review Group recommended February 25 that the Reagan administration initiate an investigation

U.S. Exports to Japan

(in millions of dollars, f.a.s. value basis)

	January-December 1986	January-December 1987	Percent Change
Total Exports	$26,881.6	$28,248.6	5.1%
Industrial Supplies	8,751.5	10,155.7	16.0
Bituminous Coal	554.7	484.5	-12.7
Petroleum Products	567.7	661.3	16.5
Natural Gas	187.0	144.3	-22.8
Logs and Lumber	1,097.4	1,573.4	43.4
Paper Base Stocks	563.8	747.8	32.6
Paper and Paper Products	354.0	398.8	12.7
Organic Chemicals	731.8	870.4	18.9
Inorganic Chemicals	883.9	831.5	-5.9
Plastics and Synthetic Resin Compounds	322.0	403.9	25.4
Manufactured Fertilizers and Insecticides	246.1	297.7	21.0
Steel Scrap	170.0	123.1	-27.6
Nonferrous Ores and Scrap	491.8	553.9	12.6
Nonferrous Metals	205.8	394.3	91.6
Textiles	121.7	159.3	30.9
Raw Cotton	238.6	413.7	73.4
Hides and Skins	331.4	369.6	11.5
Leaf Tobacco	227.1	300.8	32.5
Capital Goods	6,727.5	7,769.0	15.5
Nonelectric Machinery	3,561.7	4,231.1	18.8
Data Processing Equipment	1,400.6	1,777.1	26.9
Measuring, Testing and Control Instruments	477.2	568.7	19.2
Laboratory Testing and Control Instruments	103.9	131.1	26.2
Scientific, Professional and Medical Equipment	337.0	433.6	28.7
Power Generating Equipment	77.1	108.6	40.9
Metalworking Equipment	143.0	126.4	-11.6
Service Industry Equipment	143.7	196.1	36.5
Electric Machinery	977.5	1,218.6	24.7
Generators and Transformers	73.7	68.3	-7.3
Broadcast and Communications Equipment	402.8	574.8	42.7
Telephonic and Other Electric Equipment	500.9	575.5	14.9
Transportation Equipment	2,188.3	2,319.1	6.0
Civilian Aircraft	1,161.3	1,094.9	-5.7
Civilian Aircraft Engines and Parts	659.6	753.6	14.3
Automotive Parts	235.0	274.4	16.8
Food and Feed	5,042.8	5,555.1	10.2
Corn	878.0	1,036.0	18.0
Sorghum	178.0	181.8	2.1
Soybeans	838.8	785.7	-6.3
Wheat	424.3	352.3	-17.0

Fruits and Vegetables	584.0	664.5	13.8
Meat and Meat Products	760.9	898.3	18.1
Fish and Fish Products	864.2	1,058.8	22.5
Consumer Goods	1,689.9	2,550.8	50.9
Pharmaceuticals	647.4	699.0	8.0
Toys and Sporting Goods	98.0	180.3	84.0
Cigarettes	128.0	491.9	284.3

U.S. Imports from Japan

(in millions of dollars, Customs value basis)

	January-December 1986	January-December 1987	Percent Change
Total Imports	$81,911.1	$84,575.0	3.3%
Automotive Products	32,849.1	33,694.9	2.6
Cars	21,060.7	21,304.7	1.2
Trucks	5,713.4	4,961.1	-13.2
Automotive Parts	6,065.6	7,427.2	22.4
Capital Goods	25,333.9	28,946.8	14.3
Nonelectric Machinery	17,230.9	19,626.2	13.9
Business Machines	7,901.9	9,709.3	22.9
Metalworking Machinery	1,475.3	1,391.4	-5.7
Specialized Industrial Machinery	1,598.0	1,870.4	17.0
Scientific, Professional and Medical Equipment	835.2	879.7	5.3
Electric Machinery	7,532.5	8,517.7	13.1
Transportation Equipment	570.5	802.9	40.7
Consumer Goods	15,451.1	13,384.5	-13.4
Video and Audio Recorders and Players and Stereo Equipment	5,881.1	4,068.8	-30.8
Television Sets	869.0	508.8	-41.4
Radio Receivers	272.9	271.9	-0.4
Tableware and Glassware	453.8	434.2	-4.3
Metal Cookware and Cutlery	473.0	422.1	-10.8
Photographic and Optical Goods	1,164.8	1,198.5	2.9
Clocks and Watches	477.2	526.1	10.2
Toys and Sporting Goods	523.1	749.4	43.3
Motorcycles and Parts	853.3	553.2	-35.2
Clothing	464.0	379.4	-18.2
Intermediate Goods	6,948.7	7,281.0	4.8
Steel Mill Products	2,231.5	2,214.7	-0.8
Nonferrous Metals	504.6	450.6	-10.7
Organic Chemicals	732.2	846.9	15.7
Inorganic Chemicals	118.9	166.0	39.6
Textiles	855.4	755.5	-11.7

into Japan's construction bidding practices under Section 301 of the 1974 Trade Act. The subcabinet-level advisory body first reached this consensus in early December 1987, but postponed the actual vote until now to give Prime Minister Noboru Takeshita time to develop a compromise. The group had hoped that the prime minister would bring a new offer to Washington and that subsequent talks would reveal some chance of a breakthrough. With only modest progress made in a mid-February series of discussions (see JEI Report No. 8B, February 26, 1988), the group's move puts more pressure on Tokyo. The cabinet-level Economic Policy Council will now study the recommendation and decide whether to forward it to the president for action.

Salmon Fishing Rights - Tokyo and Washington are working to overturn a court judgment that threatens a bilateral salmon fishing pact. In a case filed by American environmentalists, the U.S. Court of Appeals upheld a lower court ruling banning Japanese salmon fishing within the 200-mile U.S. economic zone on the grounds that it violated laws aimed at preventing the unnecessary killing of dolphins. Washington agreed with Tokyo that the ruling contradicts the salmon fishing agreement's provisions and will appeal the decision. It is not likely, however, that the Marine Mammal Protection Act will be amended as Tokyo has requested.

Tokyo also faces a challenge to traditional salmon fishing from the Soviet Union. Soviet negotiators have proposed a "new type of salmon fishing" to replace current Japanese offshore fishing methods as part of this year's salmon fishing agreement. It is not clear what the new method is, but it could be a prod to force Japan to establish joint ventures with Soviet fishermen and stop all independent salmon fishing in Soviet waters. Last year Tokyo paid Y3.7 billion ($29.6 million at Y125=$1.00) in fees for the right to take 24,500 metric tons of salmon. The Soviets claim that the salmon runs are still declining despite reduced catches and increased repopulation programs. Tokyo expects Moscow to demand further quota cuts and higher fees, but asserts that salmon populations are climbing and will push for the status quo.

Correction

In JEI Report No. 8A, February 26, 1988, the 1986 data in Tables 2, 3, 4, and 6 labeled estimated is in fact actual data.

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.